EXHIBIT 3
DATE 1/10/07
HB —

Legislative Fiscal Division
http://leg.mt.gov/css/fiscal

The basic process of establishing personal services funding

- Assume all positions are filled
- Annualize other adjustments; pay plan, health insurance, etc.

Assumptions for all examples:

- 1.0 FTE at $20,000 base salary per year
- Legislative pay plan equals 10 percent per year adjustment.

- Account for vacancies

  $10,000 for Clerical FTE (expended amount)
  +10,000 Adjustment needed to fully fund personal services
  $20,000

- Annualize for legislative pay plan:

  $20,000 (base salary) *(1.10)*(1.10) = $24,200 Value of the position

  This $4,200 adjusts the salary by ten percent per year to annualize the pay plan, benefits will calculate off of the adjusted base salary.

- Effect of other adjustments – Upgrades, Broadband changes, settlements, etc.

  $20,000 base salary
  \+ 5,000 increase due to upgrade – becomes a supervisor
  $25,000 new base salary
  \+ 5,250 annualizes pay plan by ten percent per year
  $30,250 new base salary

  This position requires a $10,250 adjustment to account for upgrade and pay plan, benefits will calculate off of the adjusted base salary.

  - Comparison to actual expenditures:
    - A $10,000 personal services expenditure in FY 2006 is budgeted at $30,250 for FY 08.

Getting to the cause of the statewide present law adjustment

In this example, both agencies have been unable to fill a position, but one agency has used the funds freed up due to the vacancy to pay overtime and a retirement payout.

Vacancies and Nonrecurring Base Year Expenditures

Employee	Budgeted Salary/Ben	Base Year Agency A	Base Year Agency B	2009 Biennium Agency A	2009 Biennium Agency B
Employee A	$30,000	$30,000	$30,000	$30,000	$30,000
Employee B	30,000	30,000	30,000	30,000	30,000
Employee C	30,000	0	0	30,000	30,000
Overtime	0	0	5,000	0	0
Retirement Payout	0	0	10,000	0	0
PS Budgeted/Actual	$90,000	$60,000	$75,000	$90,000	$90,000
Percentage Increase				50.0%	20.0%
Dollar Increase				$30,000	$15,000

Even though the percentage and total dollar change are very different, both agencies have the same fundamental issue.

What is causing the vacancy?
How has the agency attempted to fill the position?
What impact has the vacancy had on the program's mission?

In this example, one agency has used the funds made available due to the vacancy not only to pay for overtime and a retirement benefit, but has also provided a market adjustment for two employees, making the difference in percentage increase even higher.

Vacancies, Nonrecurring Base Year Expenditures, Adjustments to Salaries

Employee	Budgeted Salary/Ben	Base Year Agency A	Base Year Agency B	2009 Biennium Agency A	2009 Biennium Agency B
Employee A	$30,000	$30,000	$37,500	$30,000	$37,500
Employee B	30,000	30,000	37,500	30,000	37,500
Employee C	30,000	0	0	30,000	30,000
Overtime	0	0	5,000	0	0
Retirement Payout	0	0	10,000	0	0
PS Budgeted/Actual	$90,000	$60,000	$90,000	$90,000	$105,000
Percentage Increase				50.0%	16.7%
Dollar Increase				$30,000	$15,000

Timing of Broadbanding Adjustments

Scenario A - No Vacancies	Agency A	Agency B
Market for Position	$50,000	$50,000
Base Year Percent of Market	100.0%	70.0%
Implemented When	FY 2002	FY 2007
Base Year Salary	$50,000	$35,000
Base Year Expenditures	$50,000	$35,000
New Percent of Market	100.0%	80.0%
2009 Biennium Salary	$50,000	$40,000
Percent Increase	0.0%	14.3%

Scenario B - Vacancies	Agency A	Agency B
Market for Position	$50,000	$50,000
Base Year Percent of Market	100.0%	70.0%
Implemented When	FY 2002	FY 2007
Base Year Salary	$50,000	$35,000
Base Year Expenditures	$50,000	$25,000
New Percent of Market	100.0%	80.0%
2009 Biennium Salary	$50,000	$40,000
Percent Increase	0.0%	60.0%

In this example, timing of the broadband pay adjustments means that an agency paying much higher salaries shows no increase, while an agency paying lower salaries shows a large increase.